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**THIRD CANADIAN GENERAL INVESTMENT
TRUST LIMITED**

1978

Annual Report

D E C E M B E R 31, 1978

**THIRD CANADIAN GENERAL INVESTMENT TRUST
LIMITED**

Board of Directors

ALEX E. BARRON

T. R. MEIGHEN, Q.C.

D. L. CAMPBELL

E. LOUISE MORGAN

A. BRUCE MATTHEWS, C.B.E., D.S.O.

JOHN C. RYKERT

M. C. G. MEIGHEN, O.B.E.

PATRICK O. G. WRIGHT

Officers

M. C. G. MEIGHEN, O.B.E. - - - - - *Chairman of the Board*

ALEX E. BARRON - - - - - *President*

JOHN C. RYKERT - - - - - *Treasurer*

E. LOUISE MORGAN - - - - - *Secretary*

PATRICK O. G. WRIGHT - - - - - *Assistant Treasurer*

Auditors

PRICE WATERHOUSE & CO. - - - - - Toronto

Registrar and Transfer Agent

THE CANADA TRUST COMPANY - - - - - Toronto and Montreal

Office of Company

110 YONGE STREET, SUITE 1702, M5C 1T4 (Telephone 416-366-2931) Toronto

THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED

To The Shareholders:

Your Directors have pleasure in submitting the Annual Report of your Company for the year ended December 31, 1978 consisting of the Balance Sheet and Statements of Income, Retained Earnings, Unrealized Gain on Investments and Changes in Net Assets.

The Balance Sheet discloses that the total assets of the Company as at December 31, 1978 amounted to \$41,505,870. From this amount is deducted the total liabilities of the Company, namely, \$5,004,265, which leaves a net value of \$36,501,605. After deducting the First Preferred Shares at the call price of \$52.50, namely, \$2,752,627, each of the 1,837,190 Common Shares outstanding as at December 31, 1978 had an apparent liquidating value of approximately \$18.37. It should be noted that while \$4.9 million in deferred income taxes was deducted from total assets in calculating the equity value per share, the \$4.9 million continues to work for the benefit of the shareholders. Such will be the case until future realization of capital gains necessitates payment to the government of part or all of these deferred taxes.

The Statement of Income discloses that your Company, after paying all expenses, had a net income for the year of \$4,434,193. After providing \$131,578 for dividends on the First Preferred Shares, the balance of net income, namely, \$4,302,615 is equivalent to \$2.34 for each of the outstanding Common Shares. Income from normal investment sources generated net income, after preferred dividends, of \$1,699,597 or \$0.93 per share. A special "Tax-deferred" dividend of a non-recurring nature in the amount of \$2,603,018 or \$1.41 per Common share was also received.

During 1978 the Common Shareholders received "Tax-deferred" dividends of \$0.95 per share, an increase of \$0.03. These dividends were paid out of the Company's 1971 Surplus Accounts and are not subject to income tax in the hands of the shareholders. Such dividends, however, do reduce the adjusted cost base of your shares and this in turn could affect the taxable capital gain or loss resulting from any future sale of such shares.

We advised shareholders in the 1977 Annual Report that the concept of "Tax-deferred" dividends would cease to exist as of December 31, 1978. The Directors declared a "taxable" cash dividend of \$0.25 per Common share on January 31, 1979 payable March 15, 1979. The recent increase in the dividend tax credit makes this option attractive for most shareholders.

Since the Corporation had a substantial balance of 1971 capital surplus on hand, the Board of Directors decided to make a partial distribution of such surplus by declaring a special dividend. This dividend was paid by transferring to shareholders of record at the close of business on October 30, 1978, common shares without par value of Moore Corporation Limited ("Moore Common Shares") owned by the Corporation, at the rate of 6 Moore Common Shares for every 100 common shares of the Corporation registered in the name of a shareholder of record on the said record date. No fractions of Moore Common Shares were transferred to shareholders but in lieu thereof shareholders

received a cash payment equal to the value of their fractional interests based on \$34.75 being the closing bid price of a Moore Common Share on The Toronto Stock Exchange on October 27, 1978.

The distribution of the "Moore Common Shares" created substantial additional 1971 Capital Surplus On Hand. At a Special General Meeting of the Shareholders held on December 20, 1978 a By-law authorizing the capitalization of \$3,674,380 of the retained earnings of the Company by transferring such amount from the Company's retained earnings to the issued capital attributable to the outstanding common shares of the Company was sanctioned. The amount capitalized equals \$2.00 per outstanding common share.

In June 1978 we wrote to advise the shareholders that your Company and Canadian General Investments Limited ("CGI") had received Compulsory Transfer Notices requiring that both companies sell the 4.1% of the outstanding common shares of The Ravelston Corporation Limited ("Ravelston") owned by your Company, and the 22.4% of Ravelston shares owned by CGI, at a price to be determined by Ravelston's auditors.

During the intervening six months, negotiations took place concerning the price and method of acquisition of the above-mentioned shares. Shareholders were advised on December 21, 1978 that the negotiations reached a satisfactory conclusion. As previously reported, your Company received a cash payment of \$1,822,650 for its holdings of the preferred and common shares of Ravelston, and CGI received \$9,936,519. These amounts were arrived at by assigning a value of \$42.50 for each common share of Argus Corporation Limited held by Ravelston. The transaction was completed by Ravelston making a partial purchase of its outstanding shares. The proceeds received in excess of paid-up capital will be deemed for tax purposes to be an ordinary dividend to the companies, and accordingly, are not taxable. Your Management is pleased with this result.

The portfolio of investments as at December 31, 1978 is to be found on pages 10 and 11 of this report.

Submitted on behalf of the Board.

M. C. G. Ingleton

Chairman of the Board

Alex E. Banff

President

TORONTO, January 31, 1979.

T H I R D C A N A D I A N G E N E R A L

Balance Sheet

Assets

Investments at indicated market value (Note 1):

	December 31	
	1978	1977
Securities having a quoted market value	\$38,897,413	\$32,821,438
Securities not having a quoted market value	188,850	1,463,139
	<u>39,086,263</u>	<u>34,284,577</u>

(Cost as at—

December 31, 1978—\$15,076,937

December 31, 1977—\$15,883,663)

Short-term investments, at cost plus accrued interest	2,403,264	100,298
Dividends receivable	1,355	1,257
Cash	14,988	16,980
	<u>\$41,505,870</u>	<u>\$34,403,112</u>

Liabilities and Shareholders' Equity

Accrued liabilities	\$ 19,588	\$ 1,600
Dividends payable	35,677	36,065
Deferred income taxes (Note 4(ii))	4,949,000	2,328,000

Shareholders' equity:

Capital stock (Note 2)—		
Authorized—		
112,431 (1977—118,477) first preferred shares of the par value of \$50 each. issuable in series		
52,628,930 3% non-cumulative second preferred shares of the par value of 5¢ each redeemable at the amount paid up thereon		
2,000,000 common shares of no par value		
Issued and outstanding—		
52,431 (1977—53,251) \$2.50 cumulative first preferred shares Series 'A' redeemable at \$52.50 per share	2,621,550	2,662,550
1,837,190 common shares	<u>12,860,330</u>	<u>9,185,950</u>
	<u>15,481,880</u>	<u>11,848,500</u>

Contributed surplus, realized on purchase for cancellation of first preferred shares (including \$16,016 arising during the year ended December 31, 1978)	130,259	114,243
Unrealized gain on investments	19,060,326	16,072,914
Retained earnings (Note 2)	1,829,140	4,001,790
	<u>36,501,605</u>	<u>32,037,447</u>
	<u>\$41,505,870</u>	<u>\$34,403,112</u>

APPROVED BY THE BOARD:

A. BRUCE MATTHEWS, *Director*
M. C. G. MEIGHEN, *Director*

*Auditors' Report to the Shareholders of
Third Canadian General Investment Trust Limited:*

We have examined the balance sheet of Third Canadian General Investment Trust Limited as at December 31, 1978 and the statements of income, retained earnings, unrealized gain on investments and changes in net assets for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations and the changes in its net assets for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

As part of our tests referred to in the first paragraph above, we examined share certificates and other evidence supporting the investments held by the Company as at December 31, 1978.

TORONTO, January 19, 1979

PRICE WATERHOUSE & CO.
Chartered Accountants

INVESTMENT TRUST LIMITED

Statement of Income

	Year ended December 31	
	1978	1977
Income:		
Dividends	\$ 1,921,493	\$ 1,907,965
Interest	34,977	18,982
Gain on foreign exchange	—	14,012
	<u>1,956,470</u>	<u>1,940,959</u>
Expenses:		
Management fees	80,088	82,470
Directors' fees (Note 3)	1,550	1,200
Miscellaneous	43,657	21,020
	<u>125,295</u>	<u>104,690</u>
Income before special dividends	<u>1,831,175</u>	<u>1,836,269</u>
Special tax-deferred dividend received in shares of Moore Corporation Limited	2,603,018	—
Net income for the year	<u>\$ 4,434,193</u>	<u>\$ 1,836,269</u>
Net income for the year per common share (after deducting preferred dividends)—		
Before special dividend received	\$ 0.93	\$ 0.93
After special dividend received	<u>\$ 2.34</u>	<u>\$ 0.93</u>

THIRD CANADIAN GENERAL

Statement of Retained Earnings

	Year ended December 31	
	1978	1977
Balance at beginning of year	\$ 4,001,790	\$ 3,800,200
Add:		
Net income for the year	4,434,193	1,836,269
Gain on investments disposed of during year	2,774,986	189,672
	11,210,969	5,826,141
Less:		
Dividends paid or declared—		
On first preferred shares Series A	131,578	134,136
On common shares—		
Cash	1,745,330	1,690,215
Shares of Moore Corporation Limited	3,830,541	—
	5,575,871	1,690,215
	5,707,449	1,824,351
Transfer of retained earnings to paid-up capital of common shares (Note 2)	3,674,380	—
	9,381,829	1,824,351
Balance at end of year	\$ 1,829,140	\$ 4,001,790
Dividends paid or declared per share:		
Preferred	\$ 2.500	\$ 2.500
Common—		
Cash	\$ 0.950	\$ 0.920
Shares of Moore Corporation Limited	\$ 2.085	\$ —
	\$ 3.035	\$ 0.920

Statement of Unrealized Gain on Investments

	Year ended December 31	
	1978	1977
Increase (decrease) during the year	\$ 5,608,412	\$ (814,534)
Deferred income taxes	(2,621,000)	(310,000)
	2,987,412	(1,124,534)
Balance at beginning of year	16,072,914	17,197,448
Balance at end of year	\$19,060,326	\$16,072,914

INVESTMENT TRUST LIMITED

Statement of Changes in Net Assets

	Year ended December 31	
	1978	1977
Net assets at beginning of year	\$32,037,447	\$32,988,800
Add:		
Net income for the year	4,434,193	1,836,269
Gain on investments disposed of during year	2,774,986	189,672
Gain on purchase for cancellation of first preferred shares	16,016	20,791
Increase in paid-up capital of common shares transferred from retained earnings	3,674,380	—
Increase in unrealized gain on investments	2,987,412	—
	<u>45,924,434</u>	<u>35,035,532</u>
Less:		
Decrease in unrealized gain on investments	—	1,124,534
Dividends paid or declared—		
On first preferred shares Series A	131,578	134,136
On common shares	5,575,871	1,690,215
Transfer of retained earnings to paid-up capital of common shares	3,674,380	—
First preferred shares Series A purchased for cancellation	41,000	49,200
	<u>9,422,829</u>	<u>2,998,085</u>
Net assets at end of year	<u>\$36,501,605</u>	<u>\$32,037,447</u>
Gain on investments disposed of during year:		
Cost of investments at beginning of year	\$15,883,663	\$15,357,273
Add:		
Purchase of investments during year	556,429	748,032
Dividend received in shares of Moore Corporation Limited	2,603,018	—
	<u>19,043,110</u>	<u>16,105,305</u>
Less: Cost of investments at end of year	<u>15,076,937</u>	<u>15,883,663</u>
Cost of investments disposed of during year, including cost of \$2,490,306 of shares of Moore Corporation Limited distributed as a dividend	3,966,173	221,642
Proceeds from disposition of investments during year, including value assigned to shares of Moore Corporation Limited distributed as a dividend	6,741,159	411,314
Gain on investments disposed of during year	<u>\$ 2,774,986</u>	<u>\$ 189,672</u>
Apparent liquidating value per common share (after deducting outstanding preferred shares at call price):		
At beginning of year	<u>\$ 15.92</u>	<u>\$ 16.41</u>
At end of year	<u>\$ 18.37</u>	<u>\$ 15.92</u>

**THIRD CANADIAN GENERAL INVESTMENT TRUST
LIMITED**

Notes to Financial Statements

DECEMBER 31, 1978

1. Accounting policy for valuation of investments:

The indicated market values of quoted securities are the result of pricing the Company's holdings at the closing quoted market prices as at December 31. Such amounts do not necessarily represent the value of the total holdings in any company which may be more or less than that indicated by market quotations. Securities not having a quoted market value have been included at values determined by the directors based principally on the underlying value of the assets represented by these securities.

2. Capital stock and retained earnings:

During the year ended December 31, 1978, 820 \$2.50 cumulative first preferred shares Series A were purchased for cancellation for an aggregate cash consideration of \$24,984.

On December 28, 1978, by supplementary letters patent, the capital and retained earnings of the Company were altered as follows:

- (a) Authorized first preferred share capital was reduced by the cancellation of 6,046 shares that were previously purchased;
- (b) The sum of \$302,300, previously appropriated under Section 62 of the Canada Corporations Act, was restored to retained earnings;
- (c) The paid-up capital of the issued and outstanding common shares was increased by \$3,674,380 as a result of a transfer of that amount from retained earnings.

3. Remuneration of directors and officers:

The aggregate remuneration of three of the eight directors was \$1,550 (1977-\$1,200). The remaining five directors, who are also the five officers of the Company, are employees of the management company and did not receive any remuneration as directors or officers of Third Canadian General Investment Trust Limited.

4. Taxation:

- (i) The Company does not qualify as an "investment corporation" as defined in Section 130 of the Canadian Income Tax Act; accordingly, it is subject to income tax as a "public corporation". "Taxable dividends" received from "taxable Canadian corporations", as defined by the Act, are excluded from taxable income; one-half of gains on disposal of investments, to the extent that these have accrued since December 31, 1971, are subject to income tax at full corporate rates.
- (ii) Unrealized gain on investments includes approximately \$9,000,000 which has accrued since December 31, 1971. In addition, the Company has received dividends of approximately \$11,114,000 since December 31, 1971 which were paid out of "tax-paid undistributed surplus on hand" and "1971 capital surplus on hand" of the payor corporations and, therefore, must be applied to reduce the adjusted cost base of the investments in the payor corporations resulting in a corresponding increase in the gain which may ultimately be realized on these investments. Provision for deferred income taxes on these unrealized gains has been made in the accounts.
- (iii) The dividends paid on the common shares during the year were out of tax-paid undistributed surplus on hand and 1971 capital surplus on hand in the amounts of \$42,000 and \$5,534,000 respectively. The transfer of retained earnings to the paid-up capital of the common shares of \$3,674,380, which represents a dividend for income tax purposes, was deemed to have been distributed out of 1971 capital surplus on hand of the Company.

With the enactment in 1977 of amendments to the Income Tax Act (Canada), tax-paid undistributed surplus on hand and 1971 capital surplus on hand disappeared on December 31, 1978. Accordingly, the Company will not be able to pay tax-deferred dividends out of those categories after that date.

5. Anti-Inflation Programme:

The Company was subject to dividend restrictions imposed by the Federal Government in the Anti-Inflation Act effective October 14, 1975. Dividends paid since this date to October 13, 1978, the date of the expiry of this legislation, were in compliance with the controls.

THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED

Summary of Portfolio by Industry

	VALUE AS OF DEC. 31, 1978	PERCENT OF PORTFOLIO
Finance - - - - -	\$ 2,169,525	5.6
Industrial Management - -	1,800,000	4.6
Merchandising - - - -	126,250	.3
Business Forms - - - -	155,202	.4
Steel - - - - -	1,633,125	4.2
Investment Trust - - - -	27,778,323	71.1
U.S. Securities - - - -	1,373,748	3.5
Metals - - - - -	200,000	.5
Energy - - - - -	1,279,925	3.3
Beverages - - - - -	1,325,000	3.4
Manufacturing - - - -	169,700	.4
Forest Products - - - -	251,250	.6
Communications - - - -	102,000	.3
Miscellaneous - - - -	354,065	.9
Venture Capital - - - -	128,150	.3
Real Estate - - - - -	240,000	.6
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	\$39,086,263	100.0

Summary of Changes in Portfolio

in 1978

Additions to Portfolio

Calgary Power Ltd. 'A' - - - - -	5,800 shares
Canadian Utilities Ltd. - - - - -	1,000 shares
Canvil Ltd. - - - - -	154 shares
The Consumers' Gas Co. - - - - -	10,000 shares
*Intel Corporation Ltd. - - - - -	500 shares
Ram Petroleums Limited - - - - -	10,000 shares

Deletions from Portfolio

Cominco Ltd. - - - - -	10,000 shares
Inco Limited 'A' - - - - -	7,500 shares
Interprovincial Pipe Line Ltd. 'A' - -	14,000 shares
London Life Insurance Co. - - - - -	465 shares
Massey Ferguson Ltd. - - - - -	20,000 shares
Moore Corporation Limited - - - - -	35,261 shares
The Ravelston Corp. Ltd. Prefd. - - -	63,937 shares
The Ravelston Corp. Ltd. Common -	5,270 shares
D. A. Stuart Oil Co. Ltd. - - - - -	700 shares
Trimac Limited - - - - -	15,000 warrants

*Stock Split—5 for 4

THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED

Portfolio of Investments

AS AT DECEMBER 31, 1978

No. of Shares	Total Market Value \$	% of Portfolio	No. of Shares	Total Market Value \$	% of Portfolio
Beverages	1,325,000	3.4		Finance	2,169,525
40,000 The Seagram Company Ltd. -	1,325,000			(A) BANKS - - - - -	554,525
				3,000 Bank of Montreal - - - - -	76,500
Business Forms	155,202	.4		7,000 Bank of Nova Scotia - - - - -	165,375
4,739 Moore Corporation Limited -	155,202			5,000 Royal Bank of Canada - - - - -	188,750
				5,600 The Toronto-Dominion Bank	123,900
Communications	102,000	.3		(B) TRUST COMPANY - -	1,615,000
4,000 Southam Incorporated - - -	102,000			68,000 Canada Trustco Mortgage Company 'A' - - - - -	1,615,000
Energy	1,279,925	3.3		Forest Products	251,250
(A) OILS - - - - -	339,625			10,000 MacMillan Bloedel Ltd. - -	251,250
2,000 Hudson's Bay Oil & Gas Co. Ltd.	104,500				
9,000 Shell Canada Ltd. 'A' - - -	145,125			Industrial Management	1,800,000
10,000 Ram Petroleums Limited - -	90,000			120,000 Argus Corporation Ltd. Class 'C' Prefd. - - - - -	1,800,000
(B) OTHER - - - - -	940,300				
5,800 Calgary Power Ltd. 'A' - - -	230,550			Investment Trust	27,778,323
1,000 Canadian Utilities Ltd. - - -	16,000			1,248,464 Canadian General Investments Limited - -	27,778,323
10,000 The Consumers' Gas Co. - - -	183,750				
15,000 Rio Algom Ltd. - - - - -	510,000				

THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED

No. of Shares	Total Market Value \$	% of Portfolio	No. of Shares	Total Market Value \$	% of Portfolio
Merchandising	126,250	.3	Steel	1,633,125	4.2
500 Canadian Tire Corporation Ltd. 'A' - - -	12,500		20,000 The Algoma Steel Corp. Ltd. -	530,000	
5,000 Canadian Tire Corporation Ltd. - - - - -	113,750		25,000 Dominion Foundries and Steel Ltd. 'A' - - - - -	765,625	
			12,000 The Steel Co. of Canada Ltd. 'A' - - - - -	337,500	
Manufacturing	169,700	.4	Venture Capital	128,150	.3
4,000 Canadian General Electric Co. Ltd. - - - - -	109,000		650 CGI and Third Venture Capital Limited Prefd. - -	65,000	
6,070 Canvil Ltd. - - - - -	60,700		10,000 CGI and Third Venture Capital Limited - - - - -	63,150	
Metals	200,000	.5	Miscellaneous	354,065	.9
5,000 Alcan Aluminium Ltd. - - -	200,000		20,000 Extendicare Ltd. - - - - -	255,000	
Real Estate	240,000	.6	10,000 Scott's Restaurants Co. Ltd. - -	92,500	
15,000 Trizec Corporation Ltd. - - -	240,000		10,100 Firan Glendale Corporation -	6,565	
			U.S. Securities	1,373,748	3.5
			3,000 Halliburton Company - - -	236,122	
			2,500 Intel Corporation Ltd. - - - -	146,743	
			5,000 National Mine Service Company - - - - -	88,193	
			30,000 Shared Medical Systems - - -	902,690	

